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Office of the President

TO: John Tippins and Kern Moritz
Stonewood Capital Managment, Inc.

cc: MJL

FROM: Joseph R. Jackman
President
Remacor, Inc.

DATE: 2/17/06

SUBJECT: **Profitability Selling Directly To the Steel Industry versus the Reagent Producers**

The attached data shows the sales and income comparison of selling Mg granules to the reagent producers (Rossborough, Hart Metals in the U.S. and Almamet GmbH in Germany) compared to selling directly to the steel industry.

Exhibit 2 – Selling to Reagent Producers

This is the Monthly Income Forecast for the sales of 420,000 lbs. of Mg granules (10 trucks) to Rossborough and Hart, our direct cost to produce the Mg granules is \$0.497/lb. The selling price to Rossborough and Hart is \$0.75/lb. However, the selling price per lb. material of \$0.85, shown on the report, is computed by adding the A and B scrap sales and the income from the fee's we charge the magnesium diecasters to process/recycle the oily turnings and scrap. Both the scrap sales and the fee's should reduce the raw material cost's, however, keeping track of it this way is easier for me to monitor and track month to month.

Our existing debt service and debt service on the \$1.0 million SBA 504 loan is included in the G&A cost.

Exhibit 3 – Selling Direct to the Steel Industry

By producing 420,000 lbs. Mg granules and purchasing 280,000 lbs. per month of Chinese Mg and blending both materials, we can produce a desulfurization reagent for \$0.706/lb.

The reagent producers, Rossborough and Hart, purchase Chinese Mg for \$0.85/lb, duty paid delivered to their plants. They do screening; add some additives, loading into trucks and

freight to the steel plants add another \$0.04/lb. Therefore, their cost of reagent to the steel industry is \$0.89/lb. Our cost for an identical reagent is \$0.706/lb.

The following shows the gross margin comparison of the present market price.

	<u>Remacor</u>	<u>Reagent Producers</u>
Present Market Price	\$1.150	\$1.150
Direct Cost	<u>0.706</u>	<u>0.890</u>
Gross Margin	0.440	0.260
% GM	38.3%	22.6%

I have actually reduced Remacor's selling price of reagent to the steel industry to \$1.00/lb. from the present market price of \$1.15. This is shown in the sales box in Exhibit 3. This is done to begin penetrating and securing a market share.

Summary

The tremendous increase in profitability by selling directly to the steel industry is made possible by blending Remacor's low cost Mg granules with Chinese Mg purchased at the same price our competitors have to pay. Our gross margin goes from 41.5% to 33.4% which is a 20% reduction. However our selling price is increased by 25% and our sales volume is increased by 67%.

Upon completion of our \$1.0 million expansion program, we would have the capability of selling 420,000 lbs/month to the reagent producers. This generates annual sales of approximately \$4.2 million. By taking that same production and buying Chinese Mg and blending, our sales would go to 700,000 lbs/month which would generate annual sales of approximately \$9.0 million.

The 700,000 lbs/month represents 4200 tons per year (TPY). The total market in North America is approximately 30,000 TPY.

Another \$2.0 million expansion in 2008 would increase our production capacity to 5000 TPY of Mg granules or 8350 TPY of reagent which would generate annual sales of \$15.0 to \$20.0 million.

JRJ/rl

Attachments

